This record is a partial extract of the original cable. The full text of the original cable is not available.

C O N F I D E N T I A L SECTION 01 OF 02 TEGUCIGALPA 002131

SIPDIS

STATE FOR EB/IFD, WHA/EPSC, INR/IAA, DRL/IL, AND WHA/CEN
STATE FOR CA/OCS/ACS/WHA AND DS
TREASURY FOR DDOUGLASS
STATE PASS AID FOR LAC/CAM
DOL FOR ILAB

E.O. 12958: DECL: 10/18/2015
TAGS: ECON EFIN ELAB EPET ENRG PGOV CASC ASEC HO
SUBJECT: HONDURAN GASOLINE PRICE FREEZE EXTENDED UNTIL AFTER ELECTIONS; FUNDING MECHANISM REMAINS UNCLEAR

REF: A. TEGUCIGALPA 2044

¶B. TEGUCIGALPA 1851
¶C. TEGUCIGALPA 1991
¶D. TEGUCIGALPA 1970

Classified By: Classified by EconChief PDunn for reasons 1.5 (B,D)

¶1. (C) Summary: The Honduran &Notables8 committee has recommended extending the gasoline price freeze in effect since September 7 until November 30, just after the November 27 presidential elections. The IMF has given tacit approval to the plan, but will most likely honor the GOH request to postpone until after November 30 its scheduled October board meeting, at which the Fund was to decide whether to disburse new funds. Meanwhile, gasoline importers continue to pay for the actual subsidy, now estimated at 380 million Lempira (USD $20.2 million) for the entire three-month period. It remains unclear how the importers are to be reimbursed for these shortfalls. A U.S. consultant is analyzing the Honduran price setting formula, but gasoline importers fear he might be biased. End Summary.

¶2. (U) Honduran Notables committee chairman Catholic Church Cardinal Oscar Rodriguez announced October 7 the committee,s recommendation to continue the current gasoline price freeze (reftel A and previous) until November 30, just after the November 27 presidential elections. This is the third time the committee has recommended a price freeze since September 8, when the price was rolled back to 68 Lempiras (USD $3.60) for a gallon of regular non-leaded gasoline after a series of transportation strikes (reftel B) paralyzed the capital, Tegucigalpa.

¶3. (C) IMF officials joined Cardinal Rodriguez and President Ricardo Maduro in giving the October 7 press conference. The officials, part of team sent to re-evaluate the fiscal situation after the GOH declared an energy state of emergency September 22 (reftel C), tacitly supported the price freeze. Team leader Louis Breuer said that how the GOH allocates their budget is their own business, &as long as they comply with the fiscal deficit we agreed to, and don,t cut social programs that help combat poverty.8 An IMF official calculated to EconOff that the 380 million Lempira (USD $20.2 million) required to pay the price freeze subsidy would equal approximately 0.2 percent of GDP, roughly equal to unexpected revenue over-performance realized this year by the GOH. The IMF official also indicated that a scheduled October board meeting required to disburse IMF funds has been postponed until after the price freeze expires, at the request of the GOH.

¶4. (C) While the gasoline price freeze has remained in effect since September 8, only the initial ten day period (to September 18) has been officially sanctioned by Honduran government decree (reftel D). The major gasoline importers received a letter from the GOH outlining a tax credit approach to reimbursement for the ten days, but the GOH never clarified how this would work. The second price freeze, from September 19 to October 2, has the GOH verbal commitment to pay but no supporting legislation. This does not bode well for gasoline importers, who have now been asked to pay an estimated 80 million Lempira (USD $4.3 million) in additional subsidies, from October 3 to October 16. &We have been bargaining in good faith with the government, but unless they have an official decree to cover this period we are not going to pay,8 said one representative from Exxon Mobil. &We need to have this clarified before the elections or we will never see the money.8

¶5. (C) The GOH continues to rely on the counsel of a U.S. citizen oil consultant associated with Trafigura Beheer SV, a global trading company that has a strong presence in Latin American through subsidiaries Puma Energy and COPENSA. IMF officials expressed concern at the consultant,s interest in creating a GOH &Tender8, or a government-led effort to centralize gasoline purchases for the country (Puma Energy is focused on oil products storage and distribution). Gasoline importers are also concerned, and questioning whether the

consultant,s association with a global oil trader will lead to recommendations that are biased against them.

¶6. (C) COMMENT: The latest in the series of price freezes will greatly reduce the impact of the gasoline price issue on the presidential elections while passing the repercussions to the incoming administration. However, the Liberal Party will continue to criticize the GOH for the high cost of living, including gas prices, an issue of great concern to the electorate in polls. How the new administration (National or Liberal) will &unfreeze8 the prices remains to be seen, particularly if current prices remain high going into the U.S. winter heating season. A rescheduled IMF board meeting after November 30 may become an effective deterrent to future price freezes and promote a more orderly return to GOH formula based pricing. Both Post and the IMF officials we spoke with support a move toward a market based price, but neither we nor they see that as likely in the near-term. Without a clear regulatory framework around the price freezes, however, the importers may end up footing more of the bill than they expected. Post will continue to monitor the situation, paying particular attention to the recommendations of the Notables Commission and their fiscal impacts. END COMMENT.
Williard